Fiscal Services Division
Legislative Services Agency
Fiscal Note

SF 604 - Apartments Taxed as Residential (LSB 2910 SV)
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Fiscal Note Version - New
Requested by Senator Herman Quirmbach

Description

Senate File 604 provides for the creation of a new property class to encompass certain properties currently classified as commercial. The properties include apartments, as well as mobile/manufactured home and land-lease communities and the class is identified as "commercial-residential." The Bill reduces the percent of market value subject to tax for this new class to 90.0% for assessment year (AY) 2008, 80.0% for AY 2009, 70.0% for AY 2010, and 60.0% for AY 2011. For AY 2012 and beyond, the impacted properties are to be taxed at the same percentage as residential property (currently at 45.6%).

The Bill appropriates $18.0 million from the General Fund to the Commercial Property Tax Replacement Fund each year beginning in FY 2010 to reimburse city and county budgets for the revenue reduction associated with the commercial-residential rollback provided in this Bill. If the statewide reduction exceeds the amount appropriated, the reimbursement is to be prorated. If the reimbursement does not reach $18.0 million, remaining money reverts to the State General Fund.

The Bill also establishes a minimum percentage at which residential property may be valued for the purpose of tax calculation (rollback), and that minimum is established as the calculated value for AY 2007.

The Bill is effective July 1, 2007. The Bill first impacts commercial-residential property taxes and the residential rollback calculation for AY 2008 (FY 2010). The appropriation for city and county property tax dollar replacement is enacted for FY 2010 through FY 2014. The impact on the State General Fund School Aid appropriation begins with FY 2010.

Assumptions

1. For FY 2007, statewide commercial property paid $1.077 billion in property taxes, including $139.6 million in taxes devoted to economic development through Tax Increment Financing, on a total taxable value of $28.6 billion. The amount of commercial tax was divided by the commercial property value for each assessor area to determine an average commercial property tax rate for each area. It is assumed that:
   a. The average rate for apartments and mobile/manufactured/land-lease communities is the same as the average for all commercial property in each assessor area.
   b. The average rate does not change through AY 2012.
   c. The amount of impacted market property value does not change through AY 2012.
2. Growth due to revaluation of existing commercial property will be:
   a. AY 2007 = 7.5%
   b. AY 2008 = 0.5%
   c. AY 2009 = 6.0%
   d. AY 2010 = 0.3%
   e. AY 2011 = 5.4%
   f. AY 2012 = 0.3%

3. Increased grain prices for crop year 2007 though 2009 will allow the taxable value of agricultural property to grow by the maximum 4.0% annual rate for AY 2007 through AY 2012.
4. With agricultural values growing the maximum 4.0%, the tie between agriculture and residential taxable value growth will not have an impact, and therefore residential taxable value due to revaluation of existing property will grow by the maximum 4.0% each year.
5. Revaluation growth in statewide market value of residential property will slow in AY 2008 though AY 2012 and will average 4.0% or less over that time frame.
6. The impact of the combination of numbers 2 through 4 above will be a residential rollback percentage that remains at or above the AY 2007 level. This means that over this time frame, the rollback floor created in SF 604 is projected to have no impact on residential taxable values. Once grain prices stabilize or decline, the residential rollback will also begin to decline again.

Fiscal Impact

Senate File 604 will reduce the taxable value of the new commercial-residential class of property and the taxable value reduction will result in reduced taxes paid by those properties. The following table provides the initial budget impact, assuming tax rates remain at the FY 2009 level.

Impact of SF 604
(dollars in millions)

	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014
Property Tax Reduction	$ - 19.2	$ - 35.8	$ - 57.5	$ - 74.1	$ - 102.0
GF School Aid Appropriation	2.7	5.1	8.2	10.6	14.6
GF Replacement Appropriation	6.8	16.8	18.0	18.0	18.0
Net Local Govt. Tax Reduction	$ - 9.7	$ - 13.9	$ - 31.3	$ - 45.5	$ - 69.4

GF = State General Fund

The table above provides the initial property tax and net local government revenue reduction amounts, prior to any local government budget response. Local government property tax revenue is determined by two factors, 1) the total value available to tax, and 2) the rate of taxation established. If a law change lowers the amount of value subject to tax, the local budget response is to either:

- Raise rates
- Lower expenses
- Increase other sources of revenue
- Expend fund balances

Depending on the local government, some of the possible responses may not be available.

Schools

Schools will respond to the reduced taxable value in three phases:

- The State will replace lost revenue at a rate of $5.40 per thousand of taxable valuation through application of the School Aid formula.
- The School Aid formula will dictate increased school tax rates for the portion of school finance that is covered by the School Aid formula but not covered by the $5.40 backfill.
- For the portion of school budgets not covered by the School Aid formula, school districts would choose from the list of budget options provided above.

Cities and Counties

For FY 2010 and FY 2011, the State reimbursement to cities and counties is projected to cover all revenue associated with the reduced taxable value. For FY 2012 and beyond, each impacted city and county would choose from the budget options listed above.

Other Forms of Local Government

Other forms of local government, including but not limited to community colleges, hospitals, assessors, and agriculture extension, would choose from any available budget options listed above.

Tax Increment Financing (TIF)

Statewide, 13.0% of all property taxes paid on commercial property in FY 2006 went to finance economic development activities through TIF. To the extent that the property class established as commercial-residential is located within the increment portion of current TIF areas, cities will respond to the reduced taxable value within an increment area by capturing more value from the non-increment portion, if additional eligible value is available. This action will decrease the taxable value available for normal local government activities and will cause the impacted local governments to increase tax rates on all taxable property. This will also increase marginally the State reimbursement through the School Aid formula.

Sources

Department of Management property value and rate files – FY 2007
Iowa State Association of Counties & Iowa Assessors
Department of Revenue
Legislative Services Agency analysis

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The fiscal note and correctional impact statement for this bill was prepared pursuant to Joint Rule 17 and pursuant to Section 2.56, Code of Iowa. Data used in developing this fiscal note and correctional impact statement are available from the Fiscal Services Division, Legislative Services Agency to members of the Legislature upon request.